

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

RE: PENNICHUCK WATER WORKS, INC.

DOCKET NO. DW 10-091

PETITION FOR TEMPORARY RATES

Pennichuck Water Works, Inc. ("PWW" or the "Company"), pursuant to RSA 378:27, petitions the New Hampshire Public Utilities Commission (the "Commission"), to fix, determine and prescribe, effective with service rendered on or after June 6, 2010, or the date on which customers are notified, whichever is sooner, reasonable temporary rates pending the Commission's final decision on the Company's request for permanent rate relief in this docket. In support thereof, the Company states as follows:

1. On April 6, 2010, in accordance with Puc Rule 1604.05, the Company filed a Notice of Intent to file Rate Schedules with the Commission and the New Hampshire Attorney General.

2. Contemporaneous with this Petition for Temporary Rates, the Company is filing revised tariff pages to Tariff NHPUC No. 5- Water, proposing an increase in the Company's permanent rates. The Company is proposing a permanent rate increase of 16.23% which will generate an additional amount of \$3,915,175 in annual operating revenues. The proposed rates are based on a December 31, 2009 test year. The Company is also proposing a step increase based on capital improvements that will have been used and useful by December 2010. Specifically, the Company is proposing a 3.68% step increase which will generate an additional \$886,639 in annual revenue.

3. As described in the testimony of Joint Prefiled Direct Testimony of Bonalyn J. Hartley and Donald L. Ware in Support of Temporary Rates, the Company is requesting that the Commission grant it an increase in annual operating revenue of \$2,604,524 on a temporary basis, which represents an overall increase of 10.80% and an effective increase of 10.17% for general metered customers. The Company has calculated its revenue deficiency for purpose of temporary rates based on the Company's actual performance during the test year with no pro forma adjustments, and is based on its books and records on file with the Commission. The Company requests that the temporary rates take effect on June 6, 2010 on a service rendered basis or the date customers are first noticed, whichever is earlier.

4. The Company is seeking a rate increase on a temporary basis because its rate of return has eroded significantly from its allowed return. In DW 08-073, the Company was granted a rate increase which was predicated on a 7.38% rate of return (*see* Order 25,006). As set forth in Ms. Hartley and Mr. Ware's testimony in Support of Temporary Rates, as of December 31, 2009, the Company's overall rate of return was 5.65% or 173 basis points below the last allowed return. The Company's rate of return during the test year was below its allowed rate of return due to significant increases in its property tax, insurance and payroll, as well as a decline in water usage, which has translated to reduced revenues. In addition, the Company has expended approximately \$19.1 million in capital improvements since its last test year, December 31, 2007.

5. Unless temporary and, ultimately, permanent rate relief is granted, the Company will not earn a reasonable rate of return on the cost of its property used and useful in the public service. The continuation of current rates will result in the confiscation of the Company's property.

6. The reports on file with the Commission and supporting documentation filed in connection with the Company's permanent rate request and with this Petition demonstrate that the Company is earning substantially below its allowed rate of return. The Company therefore requests that the Commission order a temporary rate increase, as described above. Based on Ms. Hartley and Mr. Ware's testimony, temporary rates as proposed are just and reasonable, and therefore should be granted.

WHEREFORE, the Company respectfully requests that the Commission:

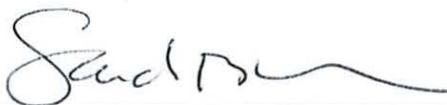
- A. Grant this Petition for Temporary Rates, allowing the Company an increase in the amount of \$2,604,524 in annual operating revenue and to be effective on June 6, 2010 on a service rendered basis, or the date on which customers are notified, whichever is sooner;
- B. Order such temporary rates to remain in effect until a determination of the Company's request for a permanent rate increase; and
- C. Grant such other relief as is just and equitable.

Respectfully submitted,

PENNICHUCK WATER WORKS, INC.

By Its Attorneys

MCLANE, GRAF, RAULERSON &
MIDDLETON, P.A.

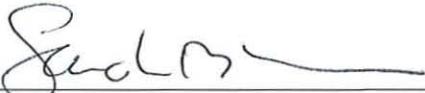
By: 

Sarah B. Knowlton, Esq.
100 Market Street, P.O. Box 459
Portsmouth, NH 03802
(603) 334-6928
email: sarah.knowlton@mclane.com

Dated: May 7, 2010

Certificate of Service

I hereby certify that a copy of this Petition for Temporary Rates has been hand delivered to Meredith Hatfield, Esq. this 7th day of May, 2010.



Sarah B. Knowlton

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Re: Pennichuck Water Works, Inc.

DW 10-091

**JOINT PREFILED DIRECT TESTIMONY
REGARDING TEMPORARY RATES
OF
DONALD L. WARE AND BONALYN J. HARTLEY**

May 2010

1 **Q. Please state your names and positions with Pennichuck Water**
2 **Works, Inc. (the “Company”).**

3 A. We are Donald L. Ware, President of the Company and Bonalyn J.
4 Hartley, Vice President-Administration of the Company.

5 **Q. Mr. Ware, please state your professional and educational**
6 **background.**

7 I have been employed with the Company since April 1995. I am a
8 licensed professional engineer in New Hampshire, Massachusetts and
9 Maine. I have a Bachelor in Science degree in Civil Engineering from
10 Bucknell University in Lewisburg, Pennsylvania. I have a Masters in
11 Business Administration from the Whittemore Business School at the
12 University of New Hampshire. Prior to joining the Company, I served as
13 the General Manager of the Augusta Water District in Augusta, Maine
14 from 1986 to 1995. I served as the District’s engineer between 1982 and
15 1986.

16 **Q. What are your responsibilities as President of the Company?**

17 **A.** As President of the Company, I am responsible for the overall operations
18 of the Company, including water quality and supply, distribution,
19 engineering and water system capital improvements. With regard to
20 capital improvements overseen by the Company’s Engineering
21 Department, I work directly with the Company’s Chief Engineer and each
22 of the Company’s Department managers in the selection and
23 implementation of new capital improvement projects.

1 **Q. Ms. Hartley, please state your professional and education**
2 **background.**

3 A. Prior to my current position, I served in various capacities including Vice
4 President-Controller, Manager of Systems and Administration and Office
5 Manager of the Company. I have been with the Company since 1979. In
6 1989, I attended the Annual Utility Rate Seminar sponsored by the
7 National Association of Regulatory Commissioners and the University of
8 Utah. I am a graduate of Rivier College with a B. S. in Business
9 Management. In addition, I am a Director of the New England Chapter of
10 the National Association of Water Companies and Chairman and Trustee
11 of the Southern New Hampshire Medical Center of Nashua, NH. I have
12 testified in numerous cases before this Commission.

13 **Q. What is the purpose of your testimony?**

14 A. Our joint testimony supports the Company's request for a temporary rate
15 increase of 10.80% in this docket. We are providing joint testimony since
16 the discussion of temporary rates summarizes certain issues and data that
17 are also covered in our respective direct testimony for permanent rates.
18 This testimony demonstrates that based on the Company's books and
19 records on file with the Commission, the Company's overall return on its
20 rate base investment is dramatically less than the Company's last found
21 return by the Commission in DW 08-073, thereby warranting approval of
22 temporary rates. In particular, our testimony will demonstrate that the
23 Company needs the temporary rate increase being requested in order to

1 earn a reasonable return on the cost of the Company's property used and
2 useful in the public service less accrued depreciation, as shown by the
3 reports of the Company that have been filed with the Commission.

4 **Analysis of Current Returns**

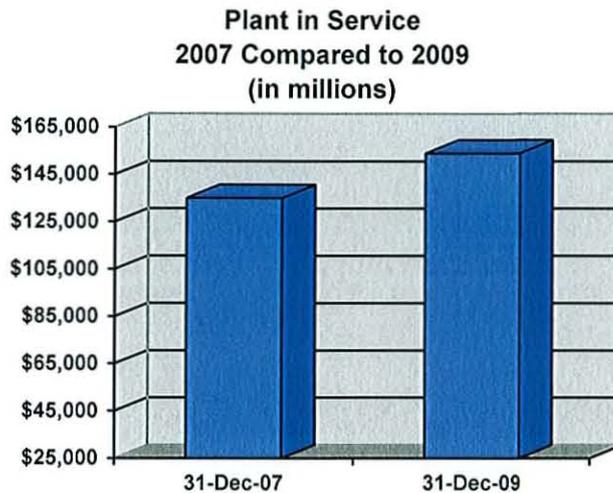
5 **Q. Ms. Hartley, would you please recap the present returns authorized**
6 **by this Commission from the Company's last rate case?**

7 A. Yes. In DW 08-073, which was based on a December 31, 2007 test year,
8 the Commission authorized the Company to earn an overall rate of return
9 of 7.38%, based on an authorized return on common equity of 9.75%.

10 This compares to an overall rate of return of 7.86% being requested in this
11 docket. The Company's current revenue requirement is based on a rate
12 base of approximately \$90.8 million and an operating expense level of
13 approximately \$10.4 million.

14 **Q. Please describe the changes to the Company's plant in service and**
15 **its earned return since the conclusion of its last rate case.**

16 A. As shown in the following graph, the Company's plant in service during the
17 past two years has increased by \$19.1 million to approximately \$154.1
18 million at the end of 2009.

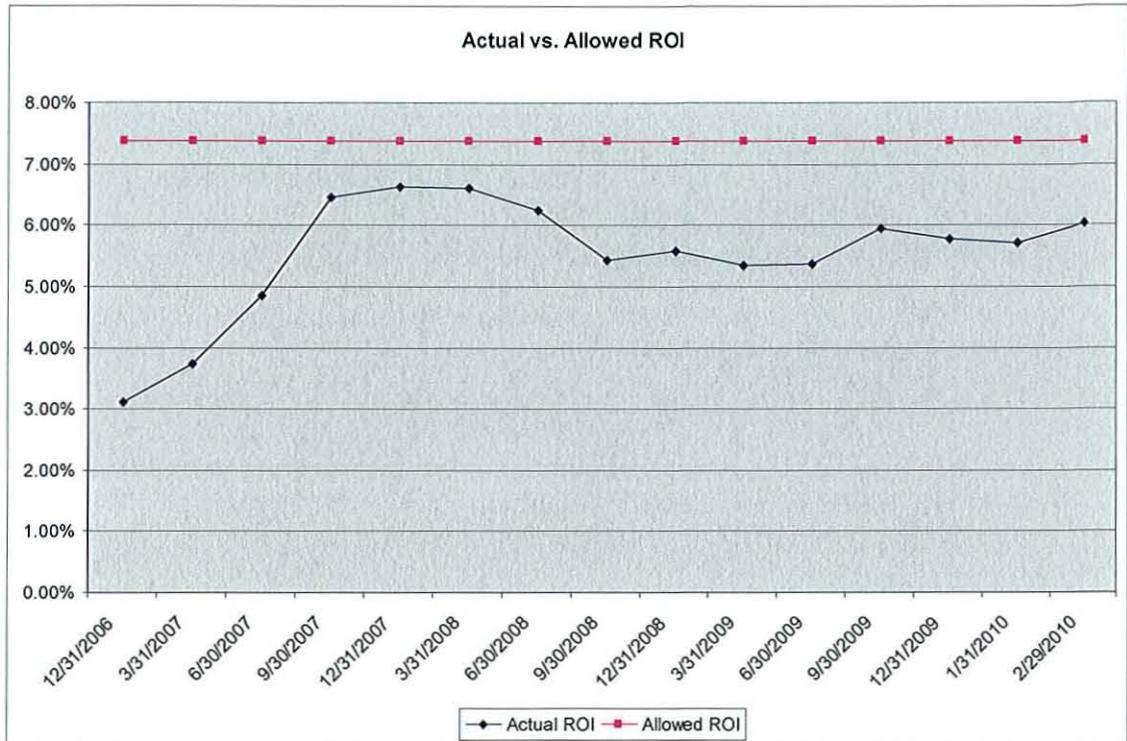


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For the same period, it should be noted that the Company's operating expenses have increased by approximately \$667,000 or 6.8% with expenses for 2009 at about the same level as 2008.

Q. Ms. Hartley, what has been the effect on the Company's overall rate of return on investment ("ROI") as a result of the increased investment in rate base and increased operating costs?

A. The additional investment in rate base and increased operating expenses has had a significant adverse impact on the Company's ROI. For the test year ended December 31, 2009, the Company's actual ROI was 5.65%, or 173 basis points ("bps") below its authorized ROI of 7.38%. The following graph illustrates the Company's historical ROI as compared to its allowed ROI from December 2006 to February 2010:



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As of February 28, 2010, its ROI improved somewhat to 6.02%, but still creates a shortfall of 136 basis points from its authorized ROI.

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Additionally, per Section 10, Schedule 11 of the Company's permanent rate filing, it should be noted that for the test year ended December 31, 2009, the Company's actual ROE was 5.1% or 465 basis points below its allowed ROE of 9.75%.

6

7

Q. Mr. Ware, has there been any change in water usage and if so, is that change contributing to the Company's need to seek rate relief in this case?

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A. Yes. Today's plumbing standards, the cost of water, the cost of energy associated with heating the water and the cost of disposing of waste water have created an economic based drive to conservation at both the

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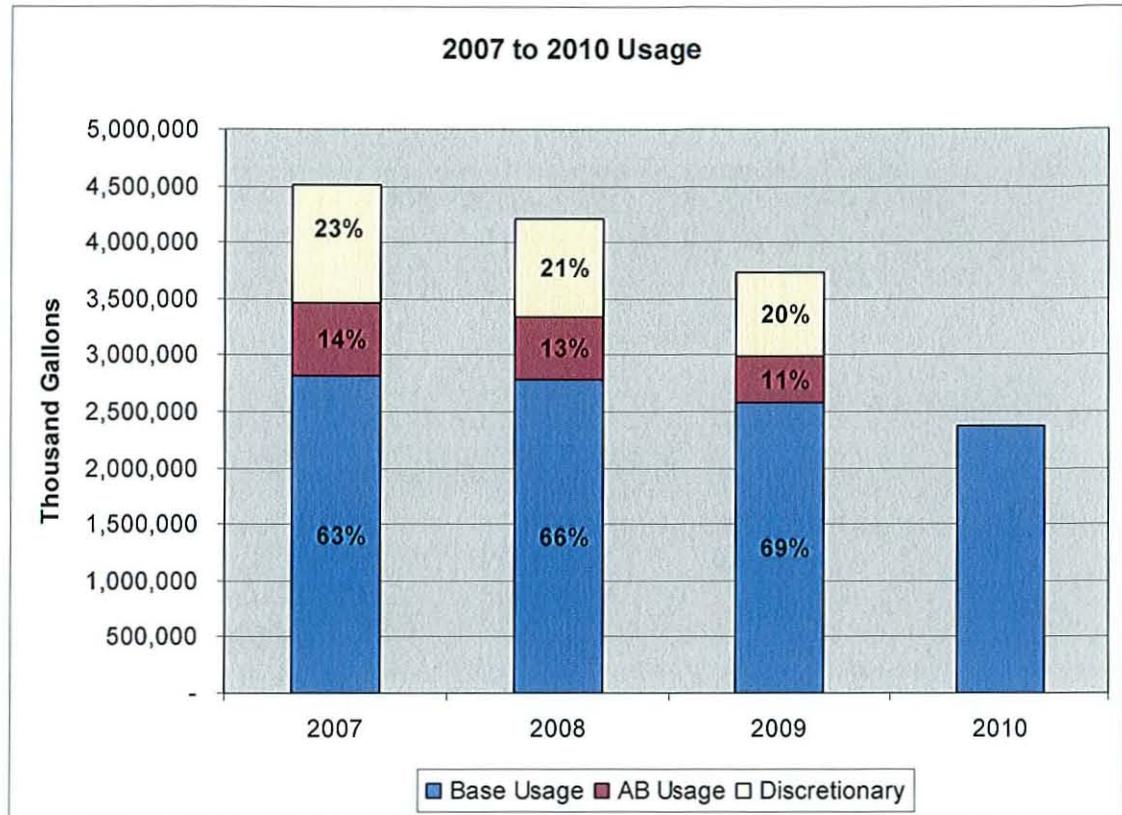
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1 residential and commercial level. The average winter time consumption
2 from February through April has dropped 9.3% for residential and 7.0% for
3 commercial customers between 2006 and 2009. Additionally, excluding
4 Anheuser Busch, industrial winter time consumption has dropped 34.1%
5 over the same time frame primarily due to a loss of customers as
6 manufacturing has moved out of the Company's service territory.
7 The Company is experiencing an overall decline of approximately 766
8 million gallons or over 17% since the last rate case in 2007. Of the total
9 decline, 5% or approximately 230 million gallons is attributable to
10 Anheuser Busch. The following graph illustrates the decline in usage from
11 2007 to 2009:

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4 In 2010, base usage has continued to decline for all customer
 5 classes. Anheuser Busch has declined over 13% for the 1st four months
 6 of 2010 compared to the same period in 2009.

7

8 **Q. Ms. Hartley, Would you please explain Schedule A, Exhibit A entitled**
 9 **“Pennichuck Water Works, Inc. Computation of Revenue Deficiency,**
 10 **Temporary Rates”?**

11 **A.** Yes. Schedule A, which is filed in conjunction with this temporary rate
 12 testimony, illustrates the revenue deficiency for the twelve months ended

1 December 31, 2009, which is the test year used in this rate filing. The
2 calculation is based on the following:

- 3 • year end rate base average of \$90,783,662;
- 4 • authorized overall rate of return of 7.38%;
- 5 • actual net operating income of \$5,126,962

6 As shown on Schedule A, the Company's revenue deficiency for the
7 twelve months ended December 31, 2009 was \$2,604,524 using the
8 Company's last authorized overall rate of return. Based on that calculation
9 alone, the Company would be entitled to an increase in rates on a
10 temporary basis at a level that is 10.80% above its current level. This
11 revenue deficiency calculation is based on the Company's actual
12 performance during the test year. The pro forma test year reflects a further
13 decline of 5.44%, or 242 bps below the Company's current ROI of 7.86%
14 proposed in this case.

15 **Q. Ms. Hartley, please explain the principal reasons for the decline in**
16 **the Company's overall rate of return.**

17 A. One of the primary factors for the deterioration in the Company's overall
18 rate of return is the significant capital improvements made by the
19 Company in order to maintain compliance with the Safe Drinking Water
20 Act. In 2008 and 2009, the Company spent approximately \$10.6 million in
21 non-revenue producing capital improvements that were not included in the
22 last rate case (DW 08-073). An additional \$4.9 million of non-revenue
23 producing capital improvements is planned through 2010, as described in

1 Mr. Ware's testimony in support of permanent rates. Another primary
2 factor for the decline in the Company's overall rate of return is the
3 significant decline in water usage across all its customer classes as
4 described above.

5 Finally, although the Company's total operating expenses have remained
6 relatively flat in 2009 over 2008, there has been a significant increase in
7 property taxes of approximately 30% or approximately \$561,000 primarily
8 as a result of changes in the valuation methodology utilized by the
9 Department of Revenue to assess the state utility tax.

10 **Q. Mr. Ware, were all of the capital expenditures included in this**
11 **schedule used and useful by December 31, 2009?**

12 A. Yes.

13 **Q. Ms. Hartley, are you recommending a temporary rate increase for all**
14 **classes of customers?**

15 A. Yes. The attached schedule entitled "Report of Proposed Rate Changes,
16 Temporary Rates" reflects a temporary increase across each customer
17 class in accordance with the recommendations of the Cost of Service
18 Study. The Cost of Service study recommends that the Company recover
19 85.88% of its required revenues from water service revenues, 3.59% from
20 private fire protection revenues, and 10.53% from municipal fire revenues
21 as part of its permanent rate structure. In accordance with the Report of
22 Proposed Rate Changes, the collection of revenues from each of the
23 customer classes of revenue as defined above results in an 10.17%

1 temporary increase in General Metered water service revenues, an
2 61.26% temporary increase in Anheuser Busch water service revenues,
3 and a 17.95% temporary increase in private fire protection revenues.. The
4 overall result of these increases is an effective increase of 10.80%. The
5 increase resulting from the requested temporary rate increase for the
6 average single family residential customer will be approximately \$5.33 per
7 month.

8 **Q. Ms. Hartley, what steps will the Company take to notify customers of**
9 **its request for a rate increase?**

10 **A.** In accordance with Puc 1203.02(c) and (d), the Company will be notifying
11 its customers regarding its rate case filing within thirty days of the
12 Company's initial filing. The Company has provided a form of notice as
13 Exhibit BH 1 to this testimony which, upon approval by the Commission's
14 Consumer Affairs Division, it proposes to include in mailings to customers
15 as part of its regular cycle billing.

16 **Conclusion**

17 **Q. What level of temporary rates is the Company requesting and why?**

18 **A.** The Company is requesting a level of temporary rates that is 10.80%
19 higher than its current rates. For the pro forma test year ended December
20 31, 2009, the Company's ROI has declined to 5.65%, which is 173 basis
21 points lower than its authorized ROI of 7.38%. Temporary rates at a level
22 of 10.80%, which reflects a \$2,604,524 revenue deficiency, would be
23 sufficient to enable the Company to currently earn its allowed rate of

1 return. The Company cannot continue to incur this magnitude of revenue
2 deficiency going forward and, accordingly, it seeks approval of this
3 temporary rate request on a service rendered basis at the time customers
4 are first noticed of the Company's filing and the proposed increase. This
5 increase will permit the Company (i) to begin to earn a more reasonable
6 return on its rate base investments, (ii) to recover increased operating
7 expenses incurred during the test year and (iii) to mitigate a significant
8 rate increase for customers, as a result of the request for a permanent
9 rate increase of 16.23%, followed by a step increase of 3.68% based on
10 capital improvements that will have become used and useful as of
11 December 2010. Furthermore, by approving temporary rates at the level
12 requested, the need for a significant surcharge at the conclusion of the
13 permanent rate case will also be greatly reduced.

14 **Q. Does this conclude your testimony on temporary rates?**

15 **A. Yes.**

**Notice of Pre-Hearing Conference
Petition for Increase in Rates**

PENNICHUCK WATER WORKS, INC.

**XXXX XX, 2010
10:00 a.m.**

Pennichuck Water Works, Inc. (PWW) has petitioned the New Hampshire Public Utilities Commission (Commission) for approval of an increase to its rates. PWW has asked for a temporary increase of 10.80% and an overall permanent increase of 19.91% which the company proposes implementing in two phases. PWW's request for this increase is based on increases in its operating costs as well as investment in its plant and treatment systems to ensure continued compliance with the Safe Drinking Water Act. The increase would apply to all customers. The increase for PWW residential general metered customers will be as follows:

Average Residential Annual Bill			
	Meter Charge 5/8"	Volumetric Charge in 100 cubic feet	Total Annual
<hr/>			
95ccf			
Current Rates	\$218.16	\$274.20	\$492.36
Proposed Temporary Rate	\$282.12	\$274.20	\$556.32
Proposed Permanent Rate	\$313.32	\$295.08	\$608.40

The Commission has scheduled a Pre-Hearing Conference to be held at the Commission's Offices in Concord on xxxx xx, 2010 at 10:00 a.m. At the Pre-Hearing Conference, the Commission will hear preliminary statements from PWW and other parties, and will consider requests for formal intervener status. The Commission will also take up the question of the schedule to govern the remainder of the case.

The Pre-Hearing Conference is open to the public. Customers and other interested parties are invited to attend the hearing and comment on the company's request. Those unable to attend the hearing may submit written comments by writing to the New Hampshire Public Utilities Commission at 21 South Fruit Street, Suite 10, Concord NH 03301 or via e-mail at puc@puc.nh.gov Tel: (603) 271-2431 Fax: (603) 271-3878

**For More Information Call:
(603) 882-5191 or 1-800-553-5191**

PENNICHUCK WATER WORKS, INC
COMPUTATION OF REVENUE DEFICIENCY
For the Twelve Months Ended December 31, 2009

Schedule A
Temporary

		PRO FORMA ADJUSTMENTS		PRO FORMA TEST YEAR	TEMPORARY (2)			
Consolidated Rate Base (Sch 3)	\$	90,783,662	\$	6,949,828	\$	97,733,490		
RATE of Return (1)		7.38%				7.86%		
Income Required	\$	6,699,834			\$	7,677,233		
Adjusted Net Operating Income (Sch 1)	\$	5,126,962	\$	185,896	\$	5,312,859		
Deficiency	\$	1,572,872			\$	2,364,374		
Tax Factor		60.39%				60.39%		
Revenue Deficiency	\$	2,604,524			\$	3,915,175	\$	2,604,524
Water Revenues	\$	23,087,262	\$	1,029,163	\$	24,116,426	\$	24,116,426
Proposed Revenue Inc		11.28%				16.23%		10.80%
New Revenue Levels							\$	26,720,950
Actual Rate of Return		5.65%				5.44%		

Notes:

(1) Test Year reflects last authorized rate of return from Order 25,006 (DW 08-073).

(2) Temporary proposed rate increase is based on the test year revenue deficiency.

**Pennichuck Water Works, Inc.
Report of Proposed Rate Changes
For the Twelve Months Ended December 31, 2009**

**Pro Forma
Schedule 9
Temporary**

DOCKET NO: DW 10-091 DATE FILED: 5/6/2010
TARIFF NO.: 5 or PAGE NOS. 40-42 and 57 EFF. DATE: _____

Proposed Change

<u>Rate or Class of Service</u>	<u>Effect of Proposed Change</u>	<u>Average Number of Customers</u>	<u>Pro Forma Present Rates</u>	<u>Proposed Rates</u>	<u>Amount</u>	<u>%</u>
G-M	Increase	25,304	19,111,902	\$21,056,413	\$1,944,511	10.17%
Private FP	Increase	807	852,380	1,005,371	152,991	17.95%
FP - Hydrants	No Increase	5	2,817,166	2,810,468	(6,698)	-0.24%
Anheuser-Busch Contract	Increase	2	862,048	1,390,148	528,101	61.26%
<u>Milford Contract</u>						
Contract Charges	No Increase	1	81,000	81,000	-	0.00%
Volumetric Charges	Increase	-	68,551	82,553	14,002	20.43%
<u>Hudson Contract</u>						
Contract Charges	No Increase	1	32,800	32,800	-	0.00%
Volumetric Charges	No Increase	-	290,579	264,084	(26,494)	-9.12%
TOTALS		26,120	\$24,116,425	\$26,722,838	\$2,606,413	10.81%

Notes:

The Proposed rates and the amount of the increase is based on the Cost of Service Study. In the Study, a slight difference is noted in the allocation of the proposed revenue vs. the revenue requirement reflected in the rate filing schedules.

Signed by:

Bonalyn J. Hartley
Title: Vice President - Administration